



Arnold Schwarzenegger
Governor

May 3, 2010
22M:388:TLA:9086:9087

Mr. Adam Peck, Administrator
Tulare County Workforce Investment Board, Inc.
4025 West Noble Avenue, Suite A
Visalia, CA 93277

Dear Mr. Peck:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2008-09

This is to inform you of the results of our review for Program Year (PY) 2008-09 of the Tulare County Workforce Investment Board's (TCWIB) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Mr. TG Akins from April 13, 2009 through April 17, 2009. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, cost/resource sharing, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients, and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, contract terms and agreements, and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by TCWIB with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2008-09.

We collected the information for this report through interviews with representatives of TCWIB, a review of applicable policies and procedures, and a review of documentation retained by TCWIB for a sample of expenditures and procurements for PY 2008-09.

We received your response to our draft report on December 23, 2009, and reviewed your comments and documentation before finalizing this report. Because your

response did not adequately address findings 1, 2, 4, and 5 cited in the draft report, we consider these findings unresolved. We request that TCWIB provide the Compliance Review Office (CRO) with additional information and a corrective action plan (CAP) to resolve the issues that led to the findings. Therefore, these findings remain open and have been assigned Corrective Action Tracking System (CATS) numbers 90234, 90235, 90237, and 90238.

Your response adequately addressed finding 3 cited in the draft report. However, this issue will remain open until we verify the implementation of your stated corrective action plan during a future on-site review. Until then, this finding is assigned CATS number 90236.

BACKGROUND

The TCWIB was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2008-09, TCWIB was allocated: \$2,916,410 to serve 1,248 adult participants; \$3,098,039 to serve 857 youth participants; and \$2,395,196 to serve 623 dislocated worker participants.

For the quarter ending December 31, 2008, TCWIB reported the following expenditures and enrollments for its WIA programs: \$1,755,944 to serve 976 adult participants; \$1,063,323 to serve 473 youth participants; and \$367,688 to serve 233 dislocated worker participants.

FISCAL REVIEW RESULTS

While we conclude that, overall, TCWIB is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the following areas: accrual reporting, program income, draw downs, and timesheets. The findings that we identified in these areas, our recommendations, and TCWIB's proposed resolution of the findings are specified below.

FINDING 1

Requirement: 20 CFR Section 667.300(c)(3) states, in part, that reported expenditures must be on the accrual basis of accounting.

WIA Directive (WIAD) 06-4 states, in part, that all WIA grant recipients are required to report expenditures on an accrual basis and must submit quarterly expenditure reports that include program income. Quarterly expenditures (including accruals) and obligations must be reported on a cumulative basis and a separate

expenditure report must be filed for each line item or grant code. Additionally, accrued expenditures and cash expenditures must be reported separately in quarterly reports.

Additionally, WIAD06-4 states, in part, that the accrual basis of accounting means an accounting basis wherein revenues and expenses are recorded in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period. If the subgrantee records are not normally kept on the accrual basis of accounting, then the subgrantee must develop accrual information through analysis of documentation on hand. Accrued expenditures are the charges incurred and recorded, but not yet paid for, during a report period requiring the provision of funds by the grantee or subgrantee for (1) goods and other tangible property received, (2) services performed by employees, contractors, subgrantees, subcontractors, and other payees, and (3) other amounts becoming owed under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments.

Observation: We observed that TCWIB reported only a portion of its program accruals and no administrative accruals. According to TCWIB staff, the program accruals reported consisted of one month's rent plus the subrecipient's accruals. TCWIB staff stated that they do not track any salaries or other costs that should have been reported as a program accrual. While we were on-site, TCWIB developed a spreadsheet that would be used to track all accruals. However, after a review of the JTA quarterly expenditure report for the quarters ending March 31, 2009 and June 30, 2009, it didn't appear that TCWIB was utilizing the spreadsheet because they still were not reporting administrative accruals.

Recommendation: We recommended that TCWIB provide the CRO with a CAP which ensured that, in the future, they report all program and administrative accruals in the JTA quarterly expenditure report.

TCWIB Response: The TCWIB stated that their CAP for this finding consists of reporting accrued expenses on applicable administrative and program lines via the JTA quarterly expenditure report. In addition, TCWIB stated that, currently, their accrued expenses are entered only in the "program expenditures." Lastly, TCWIB stated the November 2009 monthly reports included accrued expenses

reported on both the administrative and program lines and that they will continue this practice.

State Conclusion: Based on TCWIB's response, we cannot resolve this issue at this time. A review of the JTA expenditure reports submitted by TCWIB on November 19, 2009 shows TCWIB did not report any administrative or program accruals. We, again, recommend that TCWIB provide CRO with a CAP which ensures that, in the future, they report all program and administrative accruals in the JTA quarterly expenditure report. In addition, we recommend that TCWIB provide CRO with copies of the documentation which substantiates the most current JTA expenditure reports submitted to the State. Until then, this finding will remain open and has been assigned CATS number 90234.

FINDING 2

Requirement: 29 CFR Subpart C Section 97.20(b)(6) states, in part, that accounting records must be supported by such source documentation as cancelled checks, paid bills, payroll, time and attendance records, contract and subgrant award documents, etc.

20 CFR 667.200(a)(7) states, in part, that interest income earned on funds received under WIA must be included as program income.

29 CFR Section 97.25(b) states, in part, that program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of a grant agreement during the grant period.

Observation: We observed that TCWIB was not able to substantiate the amount of program income reported for the JTA quarterly expenditure report for the quarter ending December 31, 2008. The amounts of program income TCWIB reported on the JTA reports were:

- \$800 for the 201 grant
- \$75 for the 202 grant
- \$600 for the 501 grant
- \$83 for the 502 grant

During discussions with TCWIB staff we were informed that they had not actually received any program income. The reported

amounts reflected estimates of potential interest income based on the amounts received from the County in the prior program year.

Recommendation: We recommended that TCWIB provide CRO with a CAP which ensured that, in the future, they report actual program income on the JTA quarterly expenditure report. In addition, we were unclear about the amount of program income reported on the JTA quarterly expenditure report for June 30, 2009 because the same amount of program income was reported on both the December 30, 2008 and June 30, 2009 reports for the 201 grant. The amounts of program income TCWIB reported on the JTA report for quarter ending June 30, 2009 were:

- \$800 for the 201 grant
- \$20 for the 202 grant
- \$0 for the 501 grant
- \$10 for the 502 grant

We recommended that TCWIB provide CRO with documentation substantiating the amount of program income reported on the JTA quarterly expenditure report for quarter ending June 30, 2009. If there was no documentation to support the amount of program income reported, then our recommendation was that TCWIB provide CRO with documentation of the correct amount of program income and submit a correction to update the JTA quarterly expenditure report with the correct amount of program income.

TCWIB Response: The TCWIB stated that their program income consists only of interest, which is allocated to TCWIB annually through a Journal Entry from the County of Tulare. The TCWIB stated that they were reporting the estimated annualized amount because of an EDD monitoring finding from PY 2007-08. Lastly, TCWIB stated that based on the above recommendation they will revert back to the practice of recording program income when it is received, which is on an annual basis.

State Conclusion: Based on TCWIB's response, we cannot resolve this issue at this time. While we acknowledge that TCWIB should report program income when it is received, we are unclear about their assertion that they receive an allocation from Tulare County once year. In its September 23, 2008 response, TCWIB stated that they received the allocation from Tulare County twice a year.

Additionally, in the September 23, 2008 response, TCWIB stated that they would deduct the amount of interest from the next cash draw down and report it on the JTA expenditure report in the quarter it was received. Additionally, TCWIB did not provide CRO with documentation substantiating the amount of program income reported on the JTA quarterly expenditure report for quarter ending June 30, 2009.

We recommend that TCWIB provide CRO with Tulare County's policy for allocating interest income. In addition, we, again, recommend that TCWIB provide CRO with documentation substantiating the amount of program income reported on the JTA quarterly expenditure report for quarter ending June 30, 2009. Until then, this finding will remain open and has been assigned CATS number 90235.

FINDING 3

Requirement:

29 CFR Section 97.20(a)(2) states, in part, that fiscal control and accounting procedures of subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions.

29 CFR Section 97.20(b)(6) states, in part, that accounting records must be supported by such source documentation as cancelled checks, paid bills, payroll, time and attendance records, contract and subgrant award documents, etc.

WIAD04-14 states, in part, that all subrecipients must monitor their cash draws to ensure their account does not reflect an "excess cash" balance. Excess cash is defined as any amount which has not been shown as disbursed within three or four working days.

WIAD01-6 states, in part, that the cash-on-hand from program income must be liquidated before requesting additional cash.

Observation:

We found that TCWIB did not have adequate back up documentation for the five draw downs that we reviewed. Specifically, we found that TCWIB was not able to justify how the amounts or the source (adult, dislocated worker, youth, etc.) of draw downs are determined. First, TCWIB staff uses a report from their Advantage Financial (AFIN) system that shows only the

total amount of money from all TCWIB's funding streams that the county has paid on their behalf. Then, TCWIB staff uses an informal process to determine if there are additional monetary needs and records that amount on the AFIN report with a hand written note. Lastly, TCWIB staff makes the drawdown based on availability of funds. For instance, in the beginning part of the year TCWIB staff indicated they only were able to draw down from the Youth Funds. Once the other grants became available, they started splitting their draw downs between the Adult and Dislocated Worker grants 50/50. As of the time of the review, a formal reconciliation had not been performed.

We found a similar issue in PY 2007-08

Recommendation: We recommended that TCWIB provide CRO with a CAP, including a timeline, to ensure that cash draw downs are adequately documented to demonstrate: (1) traceability to the funds requested (i.e. \$100,000 adult fund draw down is traceable to \$100,000 in adult expenditures), (2) that the amount requested does not result in excess cash, and (3) that program income is expended prior to the request for additional funds.

TCWIB Response: The TCWIB provided a new worksheet that they will use when determining cash draw downs. The TCWIB stated that this document will address the traceability and consistent zero balance requirement. Additionally, TCWIB stated that this worksheet will be used to ensure that cash is drawn from the appropriate grant and subsequently adjusted, as needed.

State Conclusion: The TCWIB's stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future on-site visit, TCWIB's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 90236.

FINDING 4

Requirement: OMB Circular A-87, Attachment A(C)(3)(a) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Observation: While reviewing the timesheet for an employee, we found that the employee had charged 8 hours to a non-WIA grant on their timesheet. However, the payroll register demonstrated that these non-WIA hours were charged to the WIA program.

We found a similar issue in PY 2007-08

Recommendation: We recommended that TCWIB provide CRO documentation that shows that the non-WIA hours were charged to the appropriate funding source and that the WIA account has been reimbursed for these funds.

TCWIB Response: The TCWIB stated that they were waiting for information, specifically the name of the employee identified above.

State Conclusion: Based on TCWIB's response, we cannot resolve this issue at this time. In its December 22, 2009 response, TCWIB stated they were waiting for the name of the individual whose work hours were incorrectly charged to the WIA account. However, the name was provided to Ms. Tiffany Ward per email dated December 17, 2009. We further recommend that TCWIB provide CRO documentation that shows that the non-WIA hours were charged to the appropriate funding source and that the WIA account has been reimbursed for these funds. Until then, this finding will remain open and has been assigned CATS number 90237.

PROCUREMENT REVIEW RESULTS

While we conclude that, overall, TCWIB is meeting applicable WIA requirements concerning procurement, we noted an instance of noncompliance in the area of contract language. The finding that we identified in this area, our recommendation, and TCWIB's proposed resolution of the finding is specified below.

FINDING 5

Requirement: 29 CFR 95.48(e) states, in part, that a subgrantee's contracts must contain provisions in 29 CFR 95.48 Appendix A. Among the provisions are the following:

- Compliance with Equal Employment Opportunity (EEO) provisions in Executive Order (E.O.) 11246, as amended by E.O. 11375 and supplemented by the requirements of 41 CFR Part 60;

- For the performance of experimental, development, or research work the Department of Labor's requirements pertaining to patent rights, copyrights, and rights in data; and
- Compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act, Section 508 of the Clean Water Act, and Environmental Protection Agency regulations for contracts in excess of \$100,000.

Observation: We observed that the contract for youth services with Proteus was missing the three required contract clauses referenced above. TCWIB staff reviewed the other Youth contracts and found that the contract clauses referenced above were also missing in those contracts. While on-site, TCWIB staff indicated that the Youth contracts were in the middle of the extension process and the missing contract language would be added to those contracts.

Recommendation: We recommended that TCWIB provide CRO with a copy of the boilerplate for the youth services contracts that includes the contract clauses identified above.

TCWIB Response: The TCWIB provided an unsigned copy of the ARRA Summer Youth Program (SYP) contract for Community Services and Employment Training (CSET). The TCWIB stated that the referenced provisions were included in all the SYP contracts. In addition, TCWIB stated that the language was incorporated in to the boiler-plate language of the Youth contracts beginning January 1, 2010.

State Conclusion: Based on TCWIB's response, we cannot resolve this issue at this time. The CSET contract has the second and third required clause above, and we consider those portions of the finding resolved. However, the CSET contract states that, "All construction contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees," are required to have the first clause. As stated in the requirement section above, Part 95.48(e) states, in part, that all contracts must contain provisions in 29 CFR 95.48 Appendix A. Therefore, the first clause does not only apply to construction contracts awarded in excess of \$10,000. We recommend that TCWIB update its contract boiler plate with the correct language for the first clause mentioned above and provide CRO with a copy of the boiler plate once it has been updated.

Until then, this finding will remain open and has been assigned CATS number 90238.

In addition to the finding above, we again found an ongoing condition that TCWIB does not appear to have taken any action. Specifically, we found that TCWIB's procurement policy requires only one price quote for purchases under \$5,000, which is not an adequate number of qualified sources. Although we did not sample any small purchases during this review, future small purchases may be at risk of disallowance for repeated failure to follow federal procurement requirements of WIA. We suggested that TCWIB update its procurement policy to ensure that an adequate number of price or rate quotations are obtained for all procurement transactions.

In its response, TCWIB did not address our concern.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Office your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than May 10, 2010. Please submit your response to the following address:

Compliance Monitoring Section
Compliance Review Office
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is TCWIB's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain TCWIB's responsibility.

Mr. Adam Peck

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May 3, 2010

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Mrs. Jennifer Shane at (916) 654-1292.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jessie Mar".

JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Office

cc: Greg Gibson, MIC 50
Jose Luis Marquez, MIC 50
Daniel Patterson, MIC 45